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ABSTRACT

It is important for the Federal Communications Commission (FCC) to reexamine its policy research goals and processes and to encourage the entry of economists into the regulatory process. The entire regulatory structure of the FCC should be reappraised; regulation should be used to help the natural forces of the marketplace function more efficiently and should be based on the principles that the consumer should have the broadest possible services and that the prices of those services should not be artificially inflated. The policy analysis resources of the FCC will be channeled into inquiries that go to the heart of FCC common carrier regulatory policies, inquiries into ways to expand television programing diversity without regulating content, and inquiries into spectrum allocation policy. The social impact of new communications technologies, such as the two-way communications system now being tested, deserves as much study as the basic economic and technical questions they raise. Also, the United States needs to learn about communications developments in other countries and to coordinate its policies with theirs. The FCC is receptive to research contributions from disinterested sources and would also like to bring more economists, technologists, and social scientists to the Commission to work on specific projects. (GW)

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REMARKS OF CHARLES D. FERRIS

CHAIRMAN, FEDERAL COMMUNICATIONS COMMISSION

692

BEFORE THE

SIXTH ANNUAL TELECOMMUNICATIONS POLICY RESEARCH CONFERENCE

AIRLIE, VIRGINIA

MAY 12, 1978, 12:00 NOON

Last year, before I became Chairman of the FCC, I went to only one communications conference--yours. I spent three days with you, last April, getting my first initiation into communications policy issues. I even began to learn some of the arcane language by which economists and other policy researchers talk to each other. I heard about "spectrum allocation efficiency", "regression analysis", "monopoly rents", "Pareto-optimization", "zero sum games", and even "convergence of the modes".

I came away convinced that lawyers have no monopoly on keeping their art confined to a narrow priesthood.

Lawyers do have, of course, something of a monopoly on policy input at the FCC, as elsewhere in government. In part because of my experience at Airlie, I came to the Commission convinced that we needed a fundamental reexamination of both our policy research goals and our policy research process. Just as I hope to increase reliance on competition as opposed to rules in regulating the communications industry, I hope to encourage "competitive entry" of economists into the regulatory process.

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Like traditional monopolists, lawyers have grown comfortable with old solutions and assumptions. I hope competition will prod innovation and increased choice in the marketplace of policy options--in which we Commissioners trade.

This process will, I hope, not only result in breaking down a few regulatory barriers but a few language barriers as well--not only between lawyers and economists but also between regulators generally and the public. Plain talk and plain English is an essential regulatory policy. The public should--and must--understand the regulations we write for their benefit. Regulations they cannot understand probably do not benefit them.

Today I want to talk with you about some of the other principles that will guide us in improving the policy anaylsis and research process at the FCC and the regulatory process generally.

I believe that we need a complete reappraisal of our regulatory structure. New technologies have created economic and social forces for change in the industries we regulate. These changes strain the legal and practical bounds of regulation. But I welcome that challenge.

When I was in the Navy, we had an expression: "If it moves, salute it; if it doesn't move, paint it." Outside the common carrier field, I think the FCC's philosophy has sometimes been: "If it moves information, regulate it!" And then it won't move, change or develop. We can and must change that approach.

Before we decide to regulate or continue to regulate any service, we must take a hard look at whether market forces can more

effectively serve the public interest. When we do regulate, we should do so only to help the natural forces of the marketplace function more efficiently. We should give up the benefits of innovation, efficient resource allocation, and cost reductions that normally flow from competition, and embrace regulated monopoly or other market restrictions, only as a last resort.

Regulation is justified only to help the marketplace serve the consumers of communications services. The consumer's interest may be different from a particular industry's self-interest. But it is not at odds with the overall interest of the American economy.

While the consumer's interest may be hard to find in each individual issue that comes before us, I believe certain basic principles should drive our actions:

--First, the consumer should have the broadest possible choice of services.

--Second, the prices of those services should not be artificially inflated by hidden subsidies, market inefficiencies, anticompetitive industry practices, or government regulations.

No consumer should unknowingly be required to pay the cost of a communications service to another. If society's overall interest requires an income or service transfer, that determination should be made in the open.

The indirect costs of unnecessary monopoly, of inefficient competition, or of unnecessary regulation are heavy penalties that need not be tolerated in our society. The costs of electronic communications

services has become an important factor in our total Gross National Product. For this reason, a more competitive communications sector can have significant benefits for the whole economy.

We are learning that there are not only business cycles but regulatory cycles as well. Over forty years ago the New Dealers came to Washington to erect new mechanisms for government intervention in markets in which consumers' interests were perceived as not being effectively protected.

We are now discovering that the regulatory structure they erected has ossified. Markets with too much regulation are not working as well as they can.

Over the years the goals of government have not changed. Our goals are still to protect the consumer and the viability of the competitive enterprise system. But today a new generation of regulators are exploring new mechanisms and dismantling regulatory procedures and rules that do not work efficiently or effectively. Tomorrow our children may be undoing what we do today. But this will only be evidence of the dynamic nature of our system.

I want to focus for you some of the more specific areas in which our policy analysis resources will be allocated.

First, we are in the midst of several inquiries that go to the heart of our common carrier regulatory policies:

--Do traditional assumptions about the existence of economies of scale and natural monopoly in telephone and telegraph services still make sense?

--What kind of accounting systems will be needed to support new competitive policies, determine the costs that should be allocated to each specific service, identify cross-subsidies and their effects, and make carriers accountable to the public?

--What depreciation practices or other regulatory policies will encourage rapid dissemination of new technologies without inducing economic waste?

--What lines can be rationally drawn between communications and data processing services, and what should we do if we can no longer effectively differentiate these activities?

--What separations and settlements practices are needed or appropriate in today's dynamic communications?

Second, with respect to television services, we are looking for ways to expand programming diversity without regulating content. We can increase competition in the marketplace and enhance the independence of programming from governmental control. These goals are fully compatible. And they are essential to pursue because of our increasing dependence on electronic sources of information.

Instead of policies based on spectrum scarcity--which make government oversight essential--we can and must encourage a new regulatory framework based upon an abundance of new information resources which the invisible hand and unflinching eye of the marketplace can oversee.

Our network inquiry, our cable economic inquiry, and children's television study can creatively examine program diversity issues from this perspective. We also face decisions on UHF television, public television

and radio, rural and urban translators and multi-point distribution systems that can foster diversity through expanding channel capacity and use. To move in new directions we need to know more about broadcasting economics and determine openly the consequences of new regulatory options.

Finally, spectrum allocation policy is a third area where we need to do extensive work.

Our existing allocation scheme and allocations procedures evolved in a time of far different radio technology. New technologies already here--and those we see but dimly--cannot flourish without spectrum. We must find more rational and efficient allocation methods to bring a much broader range of services to the American people at a lower cost.

The scarce spectrum resource can no longer rationally be thought of as a "free good", in economic terms. Because spectrum has been so viewed, radio and television sets have been designed to be as inexpensive as possible, with no thought given to bandwidth savings.

So far I have emphasized economic research. But regulation of communications affects more than costs. New technologies and new services can increase individual choice and satisfaction for the American consumer. But they can also change the political and social environment in ways that may have greater long-range impact.

The social impact of these new communications technologies deserves as much study as the basic economic and technical questions they raise. The new two-way communications system being tested by QUBE in Columbus could radically change our political process through direct and

instantaneous polling on local referendum issues by every television household in a city. Those who control that capacity can wield incredible political power by which questions they choose to ask, and how the questions are framed. That power translated to a national level is awesome.

Political scientists have analyzed how polling has already revolutionized our political process with samples of a few thousand. A totally different phenomenon occurs when a personal commitment to a policy choice is made by millions.

Significant developments are also taking place in other countries, often at a greater pace than in the United States. Great Britain already offers teletext services using broadcast signals, and viewdata services using phone lines, to deliver information on home television screens. Japan has demonstrated an interactive broadband system to provide services ranging from hard copy facsimile newspapers and mail to health and consumer information on demand. It is also testing a similar system using optical fibers. Japan's public broadcasting network, NHK, will next year begin direct satellite to home broadcasting.

We need to assess whether our regulatory structure has retarded similar developments in the United States. We cannot afford to be insular in our outlook. We can learn from others.

We must also reconcile our competitive markeplace philosophy and policies with more structured telecommunications policies abroad. Telecommunications needs and services are becoming intertwined internationally. We live in a world of interdependent communications and information sources. Issues of international specturm allocation, use of satellite orbital slots,

and international cable and satellite planning are now of greater importance to the Commission.

Whether by foresight or coincidence, the issues I have outlined today are precisely those that you have chosen to discuss at this conference. In fact these are not radical new ideas. Some of you have been talking and writing about them--and urging the FCC to act on them--for years.

I believe that there is a new receptivity to policy research and analysis at the FCC. We are even beginning to hold full Commission meetings to educate ourselves about new technologies, long before we would have to face regulatory decisions affecting their development.

Our role should be to provide a forum for new ideas. We should help put new ideas in the public domain.

If what I am saying interests you, I hope you will help us. Those of you who are funders know that our $1 million research budget is still quite small compared with the research budgets of the industries we regulate, or even compared with the combined resources of other government agencies and the nonprofit sector.

We can use research supplied by industry parties. But we especially welcome research contributions from disinterested sources. We expect to work closely with the new National Telecommunications and Information Administration in sharing our research priorities. Other federal agencies and departments, such as the National Science Foundation and HEW, also put substantial resources into this field. The Corporation for Public Broadcasting has a substantial telecommunications research

and demonstration budget. And private foundations such as Ford and Markle underwrite significant policy-related research.

Diversity in research sources--like diversity in programming sources--is healthy. But if it is not directed towards concrete goals, or if no thought is given to the ultimate user, it can be an exercise in futility. We must together plan our research activities more carefully and effectively.

The FCC is the ultimate user of the research you do or fund. We are in the front line: we not only propose policy, we adopt and implement it. If we do not know your research exists, or if you present it in a form of no use to us, the seeds you attempt to plant will fall on barren ground.

We will be trying to give you a clearer picture of our long-range agenda. This will give you the lead time you need to fund and perform research that will match our needs. I urge you to think of our Office of Plans and Policy as a clearinghouse for ideas. There you can find out the Commission's short and long-range agenda, and suggest to us what that agenda should be.

Finally, I urge you to think about coming to the FCC. We want to bring more economists, technologists, and social scientists to the Commission for a year or two, to work on a specific project, and then return to their institutions. You can see how we actually work and enrich your future research. For us, it can bring a breath of fresh air to challenge our accepted practices.

Ultimately, no regulatory agency and no regulatory policies are any better than the people who make those policies and make the agency work day-to-day. The FCC has a distinguished past among regulatory agencies and an extraordinarily able and dedicated staff. But we can leaven this staff with your new ideas and your skills as economists, social scientists, engineers and political scientists.

This agency had substantial momentum as a result of present and past Commissioners. But there is today, I hope, a new spirit of openness and innovation at the Commission as we assemble a critical mass of new and old staff. I hope you will think about the challenges that the FCC can offer.

By next year's seventh annual conference, I also hope we will be a long way towards achieving the goals I have outlined--and towards reaching Pareto-optimality in the Commission's processes.